

**CITY OF EFFINGHAM, KANSAS**

**STATUTORY BASIS FINANCIAL STATEMENTS**  
For the year ended December 31, 2011

And

**INDEPENDENT AUDITORS' REPORT**

**Long CPA, PA**  
**A Professional Association**  
**Certified Public Accountants**

# CITY OF EFFINGHAM, KANSAS

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# Long CPA, PA

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## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

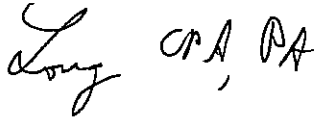
We have audited the financial statements of the individual funds of the City of Effingham, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2011, and its cash receipts and expenditures, budgetary comparisons, and changes in long-term debt and long-term debt maturities for the year then ended, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Long CPA, PA". The word "Long" is written in a cursive style, while "CPA, PA" is written in a more formal, slightly stylized font.

Long CPA, PA  
A Professional Association  
Certified Public Accountant

June 25, 2012

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
Summary of Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Governmental Type Funds</u>						
General Funds						
General	\$ 340,000	\$ 0	\$ 0	\$ 340,000	\$ 265,926	\$ 74,074
Special Revenue Funds						
Fire Equipment	11,000	0	0	11,000	4,696	6,304
Employee Benefits	31,000	0	0	31,000	25,170	5,830
Streets	100,000	0	0	100,000	82,941	17,059
Library	9,000	0	0	9,000	8,135	865
Fire Station	4,707	0	0	4,707	2,647	2,060
Debt Service Funds						
Bond and Interest	31,855	0	0	31,855	27,243	4,612
Proprietary Type Funds						
Water Utility	329,837	0	0	329,837	116,179	213,658
Sewer Utility	155,053	0	0	155,053	46,790	108,263
Pool	105,967	0	0	105,967	58,986	46,981

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 103,848	\$ 115,444	\$ (11,596)
Delinquent tax	2,772	1,000	1,772
Motor vehicle tax	19,025	20,986	(1,961)
RV tax	356	358	(2)
16/20M vehicle tax	174	374	(200)
Franchise fees	18,697	20,000	(1,303)
Sales tax	57,492	60,000	(2,508)
City/County revenue sharing			0
Interest income	235		235
Miscellaneous revenues	2,891	1,000	1,891
Operating transfers			0
	<u>205,490</u>	<u>219,162</u>	<u>(13,672)</u>
<b>EXPENDITURES</b>			
General government			
Personnel services	72,328	80,000	7,672
Commodities	46,162	60,000	13,838
Contractual	65,117	30,000	(35,117)
County sales tax	17,404	50,000	32,596
Highways and streets	29,939	20,000	(9,939)
Neighborhood revitalization rebate		8,410	8,410
Capital outlay	1,138	56,590	55,452
Operating transfers	33,838	35,000	1,162
Adjustment for qualifying budget credits			0
	<u>265,926</u>	<u>\$ 340,000</u>	<u>\$ 74,074</u>
Receipts Over (Under) Expenditures	(60,436)		
Unencumbered Cash, Beginning	148,386		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>87,950</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
BOND AND INTEREST FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 21,857	\$ 24,296	\$ (2,439)
Delinquent tax	719		719
Motor vehicle tax	4,243	4,242	1
RV tax	78	73	5
16/20M vehicle tax	53	76	(23)
Interest income	19		19
Miscellaneous revenues			0
Operating transfers			0
	<u>26,969</u>	<u>28,687</u>	<u>(1,718)</u>
<b>EXPENDITURES</b>			
General administration		3,000	3,000
Debt service	27,243	28,855	1,612
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>27,243</u>	<u>\$ 31,855</u>	<u>\$ 4,612</u>
Receipts Over (Under) Expenditures	(274)		
Unencumbered Cash, Beginning	3,117		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>2,843</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
 FIRE EQUIPMENT FUND  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 6,611	\$ 7,349	\$ (738)
Delinquent tax	394	200	194
Motor vehicle tax	2,037	1,853	184
RV tax	37	32	5
16/20M vehicle tax	31	33	(2)
Interest income			0
Miscellaneous revenues	152		152
Operating transfers			0
	<u>9,262</u>	<u>9,467</u>	<u>(205)</u>
<b>EXPENDITURES</b>			
General administration	305	1,535	1,230
Capital outlay	4,391	9,465	5,074
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>4,696</u>	<u>\$ 11,000</u>	<u>\$ 6,304</u>
Receipts Over (Under) Expenditures	4,566		
Unencumbered Cash, Beginning	2,030		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 6,596</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
EMPLOYEE BENEFIT FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 21,166	\$ 23,529	\$ (2,363)
Delinquent tax	491	200	291
Motor vehicle tax	3,626	3,787	(161)
RV tax	67	65	2
16/20M vehicle tax	40	67	(27)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>25,390</u>	<u>27,648</u>	<u>(2,258)</u>
<b>EXPENDITURES</b>			
Payroll taxes	7,789	10,714	2,925
Retirement			0
Health Insurance	13,316	14,286	970
Workman's compensation	4,065	6,000	1,935
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>25,170</u>	<u>\$ 31,000</u>	<u>\$ 5,830</u>
Receipts Over (Under) Expenditures	220		
Unencumbered Cash, Beginning	0		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 220</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
STREETS FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 11,139	\$ 12,382	\$ (1,243)
Delinquent tax	297	200	97
Motor vehicle tax	1,630	1,688	(58)
RV tax	30	29	1
16/20M vehicle tax	18	30	(12)
Fuel tax	14,548	15,760	(1,212)
Sales tax	22,736	15,000	7,736
Bond proceeds			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>50,398</u>	<u>45,089</u>	<u>5,309</u>
<b>EXPENDITURES</b>			
Street project			0
Streets	82,941	100,000	17,059
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>82,941</u>	<u>\$ 100,000</u>	<u>\$ 17,059</u>
<b>Total Expenditures</b>	<u>82,941</u>	<u>\$ 100,000</u>	<u>\$ 17,059</u>
Receipts Over (Under) Expenditures	(32,543)		
Unencumbered Cash, Beginning	101,810		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 69,267</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
LIBRARY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 6,821	\$ 7,581	\$ (760)
Delinquent tax	161	120	41
Motor vehicle tax	1,123	1,256	(133)
RV tax	21	21	0
16/20M vehicle tax	9	22	(13)
Federal grants			0
State aid/grants			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>8,135</u>	<u>9,000</u>	<u>(865)</u>
<b>EXPENDITURES</b>			
General government	8,135	9,000	865
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>8,135</u>	<u>\$ 9,000</u>	<u>\$ 865</u>
Receipts Over (Under) Expenditures	-		
Unencumbered Cash, Beginning	0		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
FIRE STATION FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Utility reimbursements	\$ 1,600	\$ 1,500	\$ 100
Interest income			0
Miscellaneous revenues	72		72
Operating transfers			0
	<u>1,672</u>	<u>1,500</u>	<u>172</u>
Total Cash Receipts			
EXPENDITURES			
General government	2,647	4,707	2,060
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>2,647</u>	<u>\$ 4,707</u>	<u>\$ 2,060</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(975)		
Unencumbered Cash, Beginning	2,915		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>1,940</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
WATER UTILITY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Charges for services	\$ 137,952	\$ 140,000	\$ (2,048)
Interest income	212		212
Miscellaneous revenues			0
Operating transfers			0
	<u>138,164</u>	<u>140,000</u>	<u>(1,836)</u>
<b>EXPENDITURES</b>			
Production			
Personnel services	24,104	35,000	10,896
Commodities	19,189	10,000	(9,189)
Contractual	6,302	30,000	23,698
Capital outlay		190,842	190,842
Debt service	66,584	51,320	(15,264)
Operating transfers		12,675	12,675
Adjustment for qualifying budget credits			0
	<u>116,179</u>	<u>\$ 329,837</u>	<u>\$ 213,658</u>
Receipts Over (Under) Expenditures	21,985		
Unencumbered Cash, Beginning	189,912		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 211,897</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
SEWER UTILITY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Charges for services	\$ 55,162	\$ 65,000	\$ (9,838)
Interest income	133		133
Miscellaneous revenues	405		405
Operating transfers			<u>0</u>
Total Cash Receipts	<u>55,700</u>	<u>65,000</u>	<u>(9,300)</u>
<b>EXPENDITURES</b>			
Production			
Personnel services	16,847	40,000	23,153
Commodities	3,913	15,000	11,087
Contractual	5,653	8,000	2,347
Capital outlay	281	57,053	56,772
Debt service	15,096	15,000	(96)
Operating transfers	5,000	20,000	15,000
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>46,790</u>	<u>\$ 155,053</u>	<u>\$ 108,263</u>
Receipts Over (Under) Expenditures	8,910		
Unencumbered Cash, Beginning	123,441		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 132,351</u>		

The notes to financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
POOL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Charges for services	\$ 16,746	\$ 15,000	\$ 1,746
Interest income			0
Miscellaneous revenues		2,000	(2,000)
Operating transfers	<u>38,838</u>	<u>67,675</u>	<u>(28,837)</u>
Total Cash Receipts	<u>55,584</u>	<u>84,675</u>	<u>(29,091)</u>
<b>EXPENDITURES</b>			
Recreation			
Personnel services	20,937	30,000	9,063
Commodities	4,211	28,292	24,081
Contractual			0
Capital outlay			0
Debt service	33,838	47,675	13,837
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>58,986</u>	<u>\$ 105,967</u>	<u>\$ 46,981</u>
Receipts Over (Under) Expenditures	(3,402)		
Unencumbered Cash, Beginning	4,056		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>654</u>		

The notes to financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS  
 ANY NONBUDGETED FUNDS  
 Statement of Cash Receipts and Expenditures  
 For the Year Ended December 31, 2011

	Sewer Improvement Fund	Component Unit: Library
CASH RECEIPTS		
Federal grants	\$	\$ 0
State aid/grants		9,300
City appropriation		8,135
Donations		4,302
Interest income		8
Miscellaneous revenues		960
Operating transfers		
	<u>0</u>	<u>22,705</u>
Total Cash Receipts		
EXPENDITURES		
Operations		
Personnel services		12,038
Commodities	10	13,398
Contractual		
Capital outlay		
Operating transfers		
Adjustment for qualifying budget credits		
	<u>10</u>	<u>25,436</u>
Total Expenditures		
Receipts Over (Under) Expenditures	(10)	(2,731)
Unencumbered Cash, Beginning	10	11,641
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u>0</u>	\$ <u>8,910</u>

The notes to the financial statements are an integral part of this statement.

## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 – Summary of Significant Accounting Policies**

##### **Financial Reporting Entity**

The City of Effingham is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of Effingham, Kansas (b) organizations for which the City of Effingham, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of Effingham, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the City's report.

##### **Fund Descriptions**

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2011:

##### **Governmental Funds**

**General Fund** - To account for all unrestricted resources except those required to be accounted for in another fund.

**Special Revenue Funds** - To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

**Debt Service Funds** – To account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

## CITY OF EFFINGHAM, KANSAS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – Summary of Significant Accounting Policies (Continued)

##### Proprietary Funds

**Enterprise Funds** – to account for operations that are financed and operated in a manner similar to private business enterprises—where stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determinations of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

##### Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principle and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally

## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

##### **Departure from Generally Accepted Accounting Principles (Continued)**

accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

##### **Discretely Presented Component Unit**

The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City.

##### **Effingham Community Library**

The Effingham Community Library operates the City's public library. The City annually levies a tax for the Library. The accounting policies of the Effingham Community Library are the same as those of the City.

##### **Reimbursed Expenses**

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

##### **Budgetary Information**

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

##### **Budgetary Information (continued)**

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting. Revenues are recognized when measurable and available to finance current year expenditures. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds: 1) Capital Improvement Fund, 2) Equipment Reserve Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

##### **Inventories and Prepaid Expenses**

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

#### **NOTE 2 – Deposits and Investments**

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

##### **Concentration of Credit Risk**

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 2 – Deposits and Investments (Continued)**

##### **Custodial Credit Risk – Deposits (continued)**

At December 31, 2011, the government's carrying amount of deposits was \$ 525,572 and the bank balance was \$ 530,118. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$ 280,118 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

##### **Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

#### **NOTE 3 – Defined Benefit Pension Plan**

**Plan Description** – The City of Effingham, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

**Funding Policy** – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contributions rate be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2011 is 7.74%. The City of Effingham Kansas employer contributions to KPERS for the years ended December 31, 2011, 2010, and 2009, were \$5,381, \$4,958, and \$4,558, respectively, equal to the statutory required contributions for each year.

# CITY OF EFFINGHAM, KANSAS

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

### NOTE 5 – Compliance with Kansas Statutes

We noted no violations of Kansas Statutes during the period under audit.

### NOTE 6 – Compensated Absences

Sick leave is available to all full time employees of the District and accrues at the rate of 10 days per year. Vacation leave is available for full time employees and is based on the number of years of service. One to three years of service employees receive one week of vacation. Four to fifteen years of service employees receive two weeks of vacation. Sixteen to twenty years of service employees receive three weeks of vacation. Employees with more than twenty years of service receive four weeks of vacation. Part time employees accrue sick leave at a rate of five days per year. No vacation time is given for part time employees. Payment is received by terminating employees with unused vacation or sick leave. The District has not computed or recorded this potential liability.

### NOTE 7 – Interfund Transactions

Operating transfers were as follows:

From	To	Statuary Authority	Amount
Sewer	Pool	K.S.A. 12-825d	5000
General	Pool	K.S.A. 79-2526	33838

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## **CITY OF EFFINGHAM, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 8 – Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

#### **NOTE 9 – Subsequent Events Review**

Subsequent events for management's review have been evaluated through June 25, 2012. The date in the prior sentence is the date the financial statements were available to be issued.

#### **NOTE 10 – Long Term Debt**

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

CITY OF EFFINGHAM, KANSAS  
Statement of Changes in Long-Term Debt  
For the Year Ended December 31, 2011

**Note 10 - Long Term Debt**

Changes in long-term liabilities for the City for the year ended December 31, 2011 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Street Improvements	3.47%	3/1/04	\$ 245,314	9/1/14	\$ 110,000	\$	\$ 25,000	\$ (25,000)	\$ 85,000	\$ 3,855
Revenue Bond										
Pool	3.75%-5.5%	12/2/08	565,000	10/15/29	565,000		20,000	(20,000)	545,000	27,675
KDHE Loan:										
Kansas Water Pollution										
Control Revolving Fund # 2461	3.39%	4/17/07	741,000	4/17/27	706,346		29,045	(29,045)	677,301	21,254
Kansas Water Pollution										
Control Revolving Fund # 131801	3.19%	8/23/99	218,300	8/31/20	119,879		10,354	(10,354)	109,525	3,449
Total Long Term Debt					\$ 1,501,225	\$ 0	\$ 84,399	\$ (84,399)	\$ 1,416,826	\$ 56,233

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2030	Total
Principal									
General Obligation Bonds	\$ 45,000	\$ 50,000	\$ 50,000	\$ 20,000	\$ 25,000	\$ 135,000	\$ 175,000	130,000	\$ 630,000
Special Assessment Bonds									0
Certificates of Participation									0
Capital Leases									0
Revenue Bonds	37,993	39,271	40,591	41,957	43,368	228,864	206,770	148,013	786,826
No-Fund Warrants									0
Temporary Notes									0
Total Principal	82,993	89,271	90,591	61,957	68,368	363,864	381,770	278,013	1,416,826
Interest									
General Obligation Bonds	29,980	28,380	26,550	24,675	23,775	101,625	64,700	14,575	314,260
Special Assessment Bonds									0
Certificates of Participation									0
Capital Leases									0
Revenue Bonds	26,140	24,862	23,542	22,177	20,765	81,002	44,850	9,267	252,605
No-Fund Warrants									0
Temporary Notes									0
Total Interest	56,120	53,242	50,092	46,852	44,540	182,627	109,550	23,842	566,865
Total Principal and Interest	\$ 139,113	\$ 142,513	\$ 140,683	\$ 108,808	\$ 112,908	\$ 546,492	\$ 491,320	\$ 301,855	\$ 1,983,691